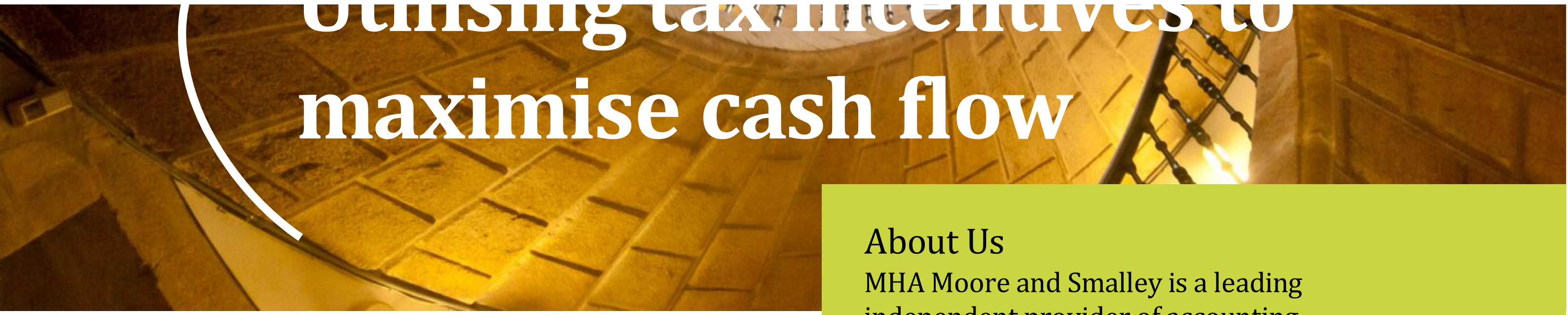
# Utilising tax incentives to maximise cash flow



## About Us

MHA Moore and Smalley is a leading independent provider of accounting, business advisory and wealth management services. We have offices in Preston, Blackpool, East Midlands, Kendal, Kirkby Lonsdale, Lancaster, Liverpool, Manchester and Southport, with 300 partners and staff providing trusted advice to clients across the UK. We are also part of a global network of firms, helping clients with international trade matters.

Given the impact of the Covid-19 pandemic and the associated lockdown, it is more vital than ever for businesses to ensure they are maximising their reliefs and take full advantage of the governments offering. These incentives and reliefs can reduce tax payments owed to HMRC to retain cash or potentially generate cash repayments from HMRC.

There are a range of valuable options available, which are outlined below and they provide generous tax deductions that reduce profits or increase taxable losses, (some of which can be converted into cash payments).

Most businesses will have accrued tax debts during the second quarter of 2020 simply due to the automatic deferral of VAT payments between 23rd March and 30th June 2020 which HMRC has implemented. Many companies will also use Time to Pay arrangements for PAYE and NIC, and potentially Corporate Tax, and so other tax debts may have accrued.

## The methods of potential relief are as follows:

### Accelerating tax claims to reduce payments due to HMRC

Accelerating the work needed to claim the tax relief means that less tax will be payable to HMRC when this becomes due, and future payments may also be reduced because of this.

Companies with profits below £1.5 million pay corporation tax 9 months and 1 day after the end of their accounting period. Companies with profits in excess of this pay in four instalments and are therefore only ever a few months away from their next payment date.

Partnerships and individuals generally make payments on account on 31st January (within the tax year), and 31st July (following the end of the tax year).

A potential method of accelerating the relief available would be to shorten an accounting period. If a company shortens their accounting period they are able to crystallise the relief at an earlier point and could significantly improve their cash flow. For example:

- A company with a 30 September 2020 year end might choose to shorten an accounting period to 31 March 2020 so that a claim for (eg) R&D tax relief was possible for activities prior to the lockdown.

- A company with a 31 March 2020 year end might choose to prepare the next accounts to 31 December 2020 so that a claim was prepared before the 31 March 2021 payment deadline for VAT deferred between 23rd March 2020 and 30 June 2020.

However, a key action with such a step is that the accounts need to be prepared to support a claim. Whilst Companies House have put forward the option of extending filing deadlines for accounts, companies who want to accelerate tax claims may find it more beneficial to prepare accounts so that they are able to support tax claims (rather than deferring preparation).

Also, there are rules regarding how often accounting periods can be changed and in which circumstances (and which govern when such a change has to be notified to Companies House). The Companies House rules should therefore be checked before committing to amending an accounting period.

## Amending prior year returns to claim repayments

If a claim for relief was overlooked in a recently filed prior year, a business may be able to file an amended return to claim the relief. In this instance, following the inclusion of the relief in the return, tax will have been overpaid so a cash tax repayment can be claimed from HMRC and future tax liabilities may also be reduced because of this work.

## Capital Allowances (CA)

Capital Allowances are available to both companies and unincorporated businesses for capital expenditure. This form of relief can be extremely valuable for commercial property, whether in respect of the acquisition of a freehold or leasehold of a building, or substantial construction works.

By carrying out a retrospective review of expenditure by a capital allowance specialist they will identify significant additional spend that is eligible for tax relief. For any construction works, the claim can go back indefinitely as long as the assets which are included in the claim are still owned and utilised in the business. For an acquisition, this is generally more complex as there is a two-year window in which a claim can be made, however with specialist help it may still be possible to make retrospective claims for expenditure which the previous owner was not entitled to claim on.

For further information on this please see our factsheet or watch one of our videos.

## Enhanced Capital Allowances (ECA)

Enhanced Capital Allowances are a sub group of Capital Allowances and are entitled to a full 100% first year allowance on items which feature on the Energy Technology List, Water Technology List or satisfy the criteria for those categories of expenditure which do not directly feature.

This relief ended on 31st March 2020, however it is still possible to amend returns for any recently filed earlier year or also if expenditure was incurred in the current accounting period but before 31 March 2020. Where a company is loss making, this can be surrendered for a cash repayment from HMRC worth 16% of the loss surrendered, up to a cap of £250,000.

## Structures and Buildings Allowances (SBA)

Structures and Buildings Allowances are available at 3% of costs which do not qualify for allowances under the Capital Allowances or ECA regime. This relief is available where contracts for construction work were entered into after October 2018 and are available on a straight line basis.

This relief reduces the base cost of the asset for capital gains tax purposes but is a welcome relief in the current economic climate and can significantly improve short term cash flow.

## Land Remediation Relief (LRR)

Land Remediation Relief provides a 150% deduction for expenditure incurred in relation to remediating contaminated land. This relief is only available to incorporated businesses but is given for both revenue and capital spend on commercial and residential developments.

Typical works include the removal of asbestos, Japanese Knotweed, Industrial Chemicals and so forth, but also cover more obscure contaminants.

Tax losses arising from Land Remediation Relief can be surrendered for a cash tax credit of 19% of the value of the loss which is surrendered.

## Research and Development (R&D) relief and tax credits

R&D relief is a particularly generous tax relief for companies who incur expenditure in carrying out R&D. R&D is essentially, any work that a company is carrying out (or paying somebody else to carry out) to resolve a scientific or technological problem which could not have readily been solved by a professional in the relevant field without carrying out a detailed and systematic project.

Many SME companies are able to claim a deduction totalling 230%, or if loss making for tax purposes can be surrendered for a cash repayment from HMRC which can be worth up to approximately 33.5% of losses surrendered.

For larger companies, or grant funded R&D projects, an alternative mechanism called the R&D Expenditure Credit can provide a taxable credit worth up to 13% of the qualifying expenditure.

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## Patent Box

The Patent Box regime is a valuable intellectual property ("IP") relief which compliments the R&D regime and can be claimed alongside it. It is available if a company owns patents which feature in the products which it sells (and potentially, IP which it licences to other parties).

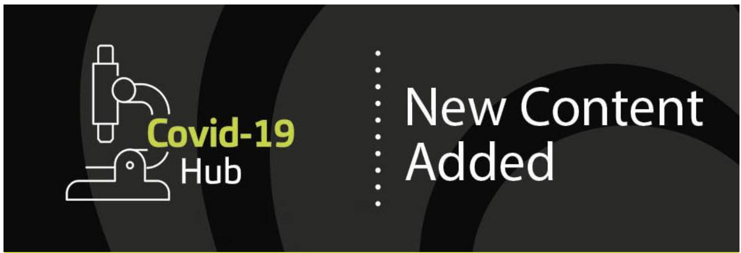
The rules and calculations required for a patent box claim are complex, but if the conditions are satisfied, the corporation tax rate that apples to the relevant income is 10% rather than the general 19% CT rate.

## Creative industries relief

A range of invaluable incentives are also available for a variety of creative sectors:

- Films
- Animation
- TV shows
- Video Games
- Theatre
- Museums and Galleries
- Orchestral Concerts

These reliefs provide an additional corporation tax deduction equivalent to 100% of the expenditure, essentially a double tax deduction. If the company is loss making for tax purposes, these can be surrendered for an immediate cash payment.




## Further information

For further information on how to utilise tax incentives to maximise cash flow, please contact a member of our tax team at your local office, or email:

info@mooreandsmalley.co.uk